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UNCLAS SECTION 01 OF 02 TEGUCIGALPA 001831

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E.O. 12958: N/A
TAGS: ECON EFIN ELAB EPET ENRG PGOV HO
SUBJECT: HONDURAN CONGRESS LOOKS AT RE-OPENING ELECTRICITY CONTRACTS WITH A VIEW TO FORCING RATE REDUCTIONS

REF: TEGUCIGALPA 1742

¶1. (U) Summary: The National Congress has reportedly dropped its recent plan to eliminate the fuel adjustment surcharge from residential electricity bills, citing costs. However, Congress now plans to examine and potentially re-open certain existing contracts with electricity generators, noting that costs in these contracts run as high as 22 cents per kilowatt, versus only 6 cents for more recent contracts. At least one private sector group has come out in favor of a Congressional review of the contracts. Post shares well-founded concerns about possible corruption in the contracting process, but is also sensitive to the risk of undermining investor confidence by re-opening and re-negotiating existing contracts. Post will follow this issue with interest as a bellwether for investor security. End Summary.

¶2. (U) As reported reftel, on August 10, President of the National Congress (and Nationalist Party presidential candidate) Porfirio "Pepe" Lobo submitted a legislative initiative to eliminate the fuel adjustment surcharge from household electricity bills. Finance Minister William Chong Wong responded that the initiative would have to meet the Constitutional requirement that new proposed expenditures also identify revenues to pay for it, and the proposal would have to be vetted with the International Monetary Fund (IMF). Chong assured EconChief that the President would not approve any proposal that did not fit within the IMF agreement.

¶3. (U) As Post predicted (reftel), it appears that Congress, faced with the necessity of cutting subsidies to the poor to fund this extravagant initiative, came to its senses and shelved this proposal. On August 16, National Party Congressional Whip Juan Orlando Hernandez announced that the Executive had determined there was no way to eliminate the adjustment, given that the cost would come to an estimated 40 percent of the total electricity bill.

¶4. (U) Instead, Hernandez said, representatives of all five parties in the National Congress are calling for a review of certain power purchase contracts with private sector electricity generators. ENEE's current contracts with private power generators (70 percent of which are thermal) allow the generators to pass-through to ENEE any increase in the cost of fuel. Hernandez complained that the contracts are "onerous" and are costing the GOH five billion lempiras (approximately USD 265 million) annually.

¶5. (U) Vice President of Congress Ramon Velasquez Nazar announced that Congress would begin looking into how previous administrations awarded energy generation contracts, seeking any evidence of "irregularities." The Special Commission looking into the contracts has noted, for example, that energy contracts signed in the Callejas Administration (1990-1994) cost more than 12 cents per kilowatt, newer contracts cost approximately 8 cents, and the newest contracts only 5.6 cents (with an adjustment for fuel prices that has recently driven prices as high as 6.8 cents). Energy analysts are quoted publicly as saying this variation in costs is due to energy efficiency improvements over time, and due to economies of scale (older contracts were reportedly for 39 and 60 megawatts, a more recent project was for 80 megawatts, and the newest is a mega-project generating 420 megawatts). Angelo Botazzi, Director of the parastatal electricity company ENEE, meanwhile, said in a recent interview that the most expensive four contracts now cost 22 cents per kilowatt, up from 18 cents last year. All of these contracts were approved by Congress at the time they were signed, and have reportedly been renewed for periods ranging from 2012 through 2018.

¶6. (U) Benjamin Bogran, Executive Director of private-sector umbrella group COHEP, publicly endorsed the revision of these contracts, even if that means re-opening the contracts and re-negotiating rates with the Energy generators. Bogran said that the GOH "has every right to revise these contracts" and agreed that they are "onerous." Bogran also raised the

possibility of seeking concessional oil from Mexico or Venezuela, as a way of reducing costs. (The GOH has repeatedly said this is not possible, since these governments do not provide concessional oil, only soft credit that the GOH cannot take advantage of, both because of debt ceilings and because the private sector, not the GOH, is responsible for oil imports into Honduras. Honduras currently gets only 4 percent of its oil from Venezuela.)

¶7. (SBU) Comment: Post will attempt to verify the per kilowatt costs of these contracts, and to ascertain other important details (capacity, whether they are take-or-pay, whether they are peaking or base-load.) If the reported figure of 22 cents per kilowatt is accurate, this really is an "onerous" cost for the GOH. Nevertheless, the contracts were duly negotiated, and then renewed, and reportedly have 7-13 years left until they expire. Post begins to worry any time the GOH starts talking of re-opening contracts with a view towards forcing suppliers to reduce prices. Investments in expensive infrastructure projects like energy generation require predictability, enforceability, and, frequently, long depreciation periods. Reopening contracts threatens all of these elements. On the other hand, corruption ran rampant for years in GOH project solicitations, so we are sensitive to the possibility that these contracts are potentially deeply flawed. To our knowledge, no U.S. firms are currently among those generating electricity for ENEE, but Post will follow this issue with interest as a bellwether for investor security. End Comment.

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